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THE
REAL OWNERS
OF
AMERICA

+ Dep (LC

BY

FRANK FAYANT

REPRINTED FROM

APPLETON'S MAGAZINE

FOR DECEMBER, 1908

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THE REAL OWNERS OF AMERICA

BY FRANK FAYANT

TWO and a half million investors own the American corporations. Twenty million thrifty Americans are indirect partners in corporate ventures. These two dry-as-dust statements of cold fact contrast strangely with the highly colored figures of speech of certain yellow purveyors of written misinformation, and with the fantastic fairy-tale pictures of the yellow cartoonists. The car-seat student of American affairs, who assimilates pseudo-political economy from head-lines and cartoons, has been led to believe that a few "Magnates" own the railroads, the industries, and the banks of the country, and that they are leagued together to enslave "the common people." But the cold figures, as revealed in the stock books of the corporations, tell a very different story.

The widespread ownership of the corporations is striking evidence of the faith the great body of industrious, thrifty Americans have in corporate enterprise, despite all recent disclosures of the misuse of corporate power by the unscrupulous. This faith was shown, as it never had been before in our history, in the recent disastrous financial panic, when hundreds of thousands of small investors came into the market place with their savings to take railroad, industrial, and bank shares off the hands of thoroughly frightened speculators and capitalists.

The popular fallacy regarding the ownership of the corporations has been in part due to a very natural misconception. The rapid growth of industrial "trusts" and railroad combinations in the past ten years has centralized control, and the careless observer has mistaken this for centralized ownership. But the centralization of control has been accompanied by the spreading out of ownership.

The steel corporation concretely illustrates this among the industrial combinations. Before the formation of the steel "trustlets" of the nineties, many of the mines, mills, and furnaces were privately owned. A few rich men owned these independent industries. The public did not participate in the profits, except in the form of wages. Now, with centralized control, 110,000 investors are partners in the steel business and participate in the profits. A good many investors, it is true, paid high prices for their interest, but as many more, who had the patience to await their opportunity, paid very low prices—witness the 27,000 new partners who joined the enterprise in the panic of 1907.

Southern Pacific is a good illustration among the railroads. When this was an independent property under the control of the Huntingtons, it did not have 3,000 shareholders. Now that it is part of Mr. Harriman's railroad empire, the bulk of its stock is divided among 15,000 investors, and 15,000 more Union Pacific shareholders participate in the earnings of the big block of its stock held for their benefit. In a word, 3,000 partners received no dividends in the days of the Huntington ownership, and 30,000 investors now divide $17,000,000 a year under Harriman's control.

The figure—two and a half million partners in corporate enterprises—is an approximation. It is probably too small. Four years ago, when the Interstate Commerce Commission made its report on railroad shareholders, the railroads had 350,000 owners. Since then the Pennsylvania list has increased from 42,100 to 59,200;

Atchison, 17,500 to 25,000; New York Central, 11,700 to 22,000; Southern Pacific, 4,400 to 15,000; Great Western, 5,900 to 10,500; Erie, 4,300 to 10,000; St. Paul, 5,800 to 10,000. These seven roads had 92,000 shareholders in 1904; now they have 152,000, an increase of 65 per cent. The other roads only have to show an increase of 35 per cent to bring the total up to 500,000, a conservative figure. These half million railroad owners divide $300,000,000 a year in dividends, an average for each owner of $600—just about the average earnings of the 1,500,000 railroad employees.

Seven of the big industrial combinations have 200,000 owners on their books: Steel, 110,000; Telephone, 25,000; Sugar, 20,000; Copper, 18,000; Pullman, 13,500; Smelters, 9,400; Oil, 5,500. These account for only 1,600,000,000 of industrial stock, a minor fraction of the country's total. It is conservative to estimate the number of other owners of industrial shares at several hundred thousand. How many people own mining stock in proven properties can only be conjectured. The Lake mines have 30,000 owners; one new silver mine has 13,500 owners, a new Western property has 12,000, another 5,000. Taking no account of "wildcat" companies—for we are talking about investors—the mines of the country must have several hundred thousand shareholders.

And then there are the banks. The last report of the ownership of the national banks (1904) showed that 318,000 investors owned the 8,800,000 shares of the 5,400 national banks, an average of only 28 shares to each holder. The popular fallacy is that a few thousand rich men own all the banks, but the truth is that as many thrifty Americans own bank shares as railroad shares. Since 1904 the number of national banks has increased 1,500, and it is fair to estimate that upward of 400,000 people now own these institutions. This takes no account of the twelve thousand trust companies, state banks, and private banks, whose owners make up another great army of investors.

Through the banks with their 15,000,000 depositors, the life insurance companies with their 25,000,000 policy holders, and the fire, accident, and guarantee companies with millions more, it is safe to say that 17,500,000 people, not direct owners of corporation securities, are indirect partners in corporation profits through the investment of their savings in these securities. So the whole American people—all thrifty Americans—have a pecuniary interest in corporate ventures.

The "man in the street" speaks of "the Havemeyers" and the Sugar Trust as though they were interchangeable names, but the ownership of no "trust" is so widely distributed. So, too, Smelters and "the Guggenheims" are used in conversation in Wall Street with the same meaning. The man who has sold a mine to the American Smelting and Refining Company says, "I have sold a mine to the Guggenheims." But all of the Guggenheim brothers and their families own only a minor minority interest in the company they organized and developed. The 10,000 shareholders, if they were agreed that the Guggenheims were mismanaging their property, could throw them all out of the directorate. The cart-tail orator pictures the Telephone "trust" as a composite monster made up of Alexander Graham Bell and a few Boston plutocrats. It is true that there are forty rich men, mostly New Englanders, who own large interests in Telephone, but their combined holdings are only one-tenth as large as those of the 25,000 small investors in the company's stock. The New England newspapers picture the New Haven railroad as even a worse monster than the Telephone "trust," but the New Haven ownership is so widely scattered that the average shareholder's certificate represents only 39 shares. The Manhattan Elevated in New York is always spoken of as a family affair, but a recent inspection of its books showed only a small fraction of its shares in the Gould family, and only six holders with more than 5,000 shares, with the majority ownership absolutely in the hands of 3,000 small investors. Even Standard Oil, the most closely owned of all the big corporations, is owned by investors who never sit at the council table at 26 Broadway. That Standard Oil shares are distributed among 5,500 owners, despite the fact that they cost in the neighborhood of $600 each and cannot be traded in on any exchange in the world, is convincing proof that "the people own the Trusts." The elder Rocke-

feller owns a quarter of his company's capital, and there are fifteen Standard Oil capitalists whose combined holdings are a fifth of the capital. So all the "big men" in Standard Oil own quite a bit less than half the stock.

One of the axioms of Wall Street philosophy is: The public buys at the top and sells at the bottom. This axiom was shattered last year in the panic. It is undoubtedly still true that the public speculator, who trades on margin, is most bullish near the top of a boom and most bearish near the bottom of a depression. There's a psychological reason for this. But the small investor, with savings in the bank, has grown in financial wisdom in the past four years. He has learned that the country, with its enormous resources of natural wealth, comes out of every panic with greater latent possibilities; that when the skies are the darkest, then is the time to wager by wise investment that the country will live; and that when everybody is convinced that this is the greatest commercial nation on earth, then is the time to convert stocks into money.

Never before in history has there been seen such a spectacle of investors buying securities in a panic as in 1907. Sixteen of the leading railroads and industries had 250,000 shareholders before the panic and 350,000 after the panic. A hundred thousand small investors, convinced that the country was sound and that the big corporations would weather the storm, took their money out of the banks and bought the shares of these sixteen companies. Nearly all the increase in shareholders' lists since 1904 was made in this panic. The small investors stood aside in the boom of 1906 and patiently waited for the crash. When the crash came they deluged Wall Street with buying orders. They poured their savings into the market when the rich speculators, who had failed to unload on the public at the top, were "sweating blood" under their heavy burden of stocks. Some of the most powerful speculators in the country very nearly reached the end of their resources in that panic. The small investors turned the tide.

The gilt-edged shares are much more widely distributed than are the unseasoned issues. The speculators, with the aid of the banks making loans on securities, carry the unseasoned shares through booms and panics, making and losing fortunes on the wide fluctuations in prices. But, gradually, as the earnings of developed properties become less variable, their shares are sought by investors, who take them off the hands of the speculators. The small investor buys stocks for their income return; the speculator buys them with the hope of making profit out of their price fluctuations, and it makes very little difference to him whether they pay dividends or not.

Sugar is a striking example of the development of a highly speculative stock into an investment. Some years ago sugar was the football of the market, the favorite of the big speculators who wanted "action for their money." The trading in it was enormous and its fluctuations were violent. Fortunes were made and lost in Sugar in a day, and the manipulation of the stock by plungers more than once stirred up a market scandal. But, as the years went by, the earnings and dividends of the Sugar Trust became more stable, and investors took the stock out of the market share by share. Sugar to-day is an investment industrial with no attractions for the big speculators. Its shares are more widely distributed than those of any other big industrial corporation. The $90,000,000 of stock is divided among 20,000 holders, with an average of 45 shares. What the small investor thinks of sugar was shown in the 1907 panic, when the first below-par quotations in seven years attracted 6,000 new partners into the company.

Then there is Steel Preferred. This stock, less than eight years old, is already well advanced in the seasoning process, despite the misgivings of the pessimists, who believed that it would take many years to educate the public to the point of regarding steel as an investment. The rapidity with which the steel shares have been distributed over the world is one of the signal achievements of American finance. The $868,000,000 of stock is now owned by 110,000 investors. The quarterly dividend checks go to every State in the Union and to every country in the world. When the Steel Corporation was floated, the question in every investor's mind was: Will they pay seven per cent on the Preferred in lean years? Only three